

Message Text

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TAGS: ETRD, EAIR, RO

SUBJ: SALE OF MEDIUM RANGE JETS TO ROMANIA

REF: A) BUCH 0992 B) BUCH 0191 C) BUCH 5901 (DEC 31, 1974)

1. SUMMARY: GOR SIGNED DEFINITIVE CONTRACT WITH BAC MARCH 2 FOR PURCHASE OF FIVE BAC-111S, WITH DELIVERY TO BEGIN LATE 1976. MCCONNELL DOUGLAS, WHICH HAD JUMPED BACK INTO CONTEST WITH NEW SET OF LAST-DITCH OFFERS FOLLOWING ASSURANCES FROM TEHNOIMPORT AND FOREIGN TRADE MINISTRY THAT BIDDING STILL OPEN, WAS TOLD APRIL 5 THAT DC-9S DEFINITELY OUT OF RUNNING, AT LEAST FOR THIS ROUND. TEHNOIMPORT HEAD HARABAGIU TOLD EMBOFF THAT GOR STILL CONSIDERING POSSIBLE SUPPLEMENTARY PURCHASE OF 727S OR 737S. END SUMMARY.

2. FOLLOWING RECEIPT OF REPORTS FROM THEIR OWN SOURCES THAT GOR HAD EXPRESSED HIGH-LEVEL INTEREST IN DC-9S, MCCONNELL DOUGLAS DECIDED TO RE-ENTER MEDIUM RANGE AIRCRAFT CONTEST WITH NEW OFFER IN DIRECT COMPETITION WITH BAC. DOUGLAS REP DICKMAN
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SUBMITTED TWO PROPOSALS, ONE FOR SALE OF FIVE DC-9S-30S OR

ALTERNATIVELY, FIVE DC-9-50S. PRICE FOR DC-9-30S SET AT ROUGHLY \$6.5 MILLION EACH WHILE DC-9-50S FIXED AT ABOUT \$7.7 MILLION (PROTECT-PROPRIETARY DATA). MAJOR IMPROVEMENT IN OFFER WAS INCREASE OF "COOPERATION" (I.E. LOCAL MANUFACTURE) PACKAGE TO \$15 MILLION, WHICH DICKMAN FELT FULLY MATCHED BAC OFFER IN THIS CRUCIAL AREA. IN JOINT MEETING WITH NEWLY APPOINTED MINISTER-STATE SECRETARY NICOLAE IONESCU OF FOREIGN TRADE MINISTRY AND TEHNOIMPORT HEAD HARABAGIU MARCH 22, DICKMAN WAS GIVEN GO-AHEAD TO WORK OUT DETAILS OF COOPERATION OFFER BY PREPARING LIST OF ITEMS SUITABLE FOR MANUFACTURE IN GOR AND ASSEMBLING TEAM OF DOUGLAS PRODUCTION SPECIALISTS FOR VISIT TO ROMANIA EARLY APRIL. DICKMAN CONSEQUENTLY HIGHLY DISAPPOINTED TO LEARN FROM HARABAGIU APRIL 5 THAT DEFINITIVE CONTRACT WITH BAC SIGNED MARCH 28, ONLY SIX DAYS LATER. WHEN DICKMAN EXPRESSED "SURPRISE" AT THIS SUDDEN REVERSAL, HARABAGIU REPLIED GOR HAND FORCED BY BRITISH, WHO HAD SAID INTEREST ON FINANCING COULD BE HELD AT SEVEN PERCENT ONLY UNTIL MARCH 31. WORKING OUT DETAILS OF DOUGLAS COOPERATION OFFER WOULD CLEARLY HAVE REQUIRED FAR MORE TIME. (COMMENT: HARABAGIU'S REPLY DOES NOT EXPLAIN WHY DOUGLAS WAS GIVEN GO-AHEAD ON MARCH 22, WHEN GOR INTENTIONS MUST ALREADY HAVE CRYSTALLIZED, NOR WHY DOUGLAS WAS NOT INFORMED BY TELEX OF GOR DECISION IMMEDIATELY UPON SIGNING. THESE ARE MATTERS WE INTEND RAISE SHORTLY WITH HARABAGIU AS LIKELY TO REFLECT UNFAVORABLY UPON ROMANIAN COMMERCIAL PRACTICES).

3. HARABAGIU SAID THREE FACTORS, OF APPROXIMATELY EQUAL IMPORT-

ANCE, CAUSED GOR TO PURCHASE BRITISH AIRCRAFT: (1) BAC COOPER-

ATION AFTER, WHICH WILL ALLOW ROMANIA TO BUILD UP DOMESTIC AIRCRAFT INDUSTRY; (2) LOW SEVEN PERCENT ECDG FINANCING, WHICH MADE "ENORMOUS DIFFERENCE" COMPARED TO US EXIMBANK/COMMERCIAL FINANCING PACKAGE; AND (3) ADVANTAGE TO TAROM OF FLEET UNIFORMITY, I.E. ADDING TO EXISTING BAC-111S RATHER THAN INTRODUCING NEW AIRCRAFT. HARABAGIU ADMITTED THAT US AIRCRAFT COMPARE FAVORABLY WITH BAC-111S IN SOME RESPECTS, SUCH AS OPERATING AND MAINTENANCE COSTS, PROFITABILITY, ETC., BUT WHEN ALL FACTORS CONSIDERED TOGETHER, GOR BELIEVED BAC OFFER WAS MOST ADVANTAGEOUS FOR ROMANIA.

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4. GOR STILL HAS UNDER CONSIDERATION SEPARATE BOEING OFFERS FOR TWO 727S AND TWO 737S (ROMANIAN INTEREST IN 707S MENTIONED IN REFTTEL A HAS AT LEAST TEMPORARILY ABATED). MINFON TRADE PATAN PERSONALLY REVIEWED THESE OFFERS WITH BOEING REP EHRENWALD MARCH 27, REPORTEDLY TERMING THEM ATTRACTIVE. FOR HIS PART EHRENWALS OFFERED TO HAVE BOEING URGE SENATOR JACKSON TO SUPPORT BILATERAL TRADE AGREEMENT.

5. COMMENT: IT WOULD APPEAR THAT MCDONNELL DOUGLAS, AT LEAST IN FINAL MONTHS OF COMPETITION, WAS CAST BY GOR IN UNENVIABLE ROLE OF BIDDER WHOSE SOLE FUNCTION WAS TO PROVIDE LEVERAGE AGAINST BAC, A PROCEDURE AT WHICH ROMANIANS ARE PAST MASTERS. WITHIN LIMITS, THIS CAN BE CONSIDERED NORMAL COMMERCIAL HAZARD, BUT WE INTEND MAKE POINT TO TEHNOIMPORT AND FOREIGN TRADE OFFICIALS THAT WHEN CARRIED TO EXTREME REPRESENTED BY DOUGLAS CASE, IT THREATEN TO DISCOURAGE US COMPANIES FROM ENTERING ROMANIAN MARKET.
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